Analysis By: Ryan Kinsella

PORTLAND WATER BUREAU

All Funds Budget Summary	Adopted FY 2012-13	Request Base FY 2013-14	Decision Pkgs FY 2013-14	Request Total FY 2013-14	Percent Change
Resources					
Beginning Fund Balance	$147,367,467	$233,886,685	$0	$233,886,685	58.7%
Charges for Services	128,336,472	142,715,525	1,306,081	144,021,606	12.2%
Intergovernmental Revenues	1,719,000	666,000	0	666,000	-61.3%
Interagency Revenue	3,282,648	3,284,923	0	3,284,923	0.1%
Fund Transfers - Revenue	188,007,868	224,198,819	0	224,198,819	19.2%
Bond and Note Proceeds	161,251,000	0	0	0	-100.0%
Miscellaneous Sources	5,700,015	5,338,656	0	5,338,656	-6.3%
Total Resources	**$635,664,470**	**$610,090,608**	**$1,306,081**	**$611,396,689**	**-3.8%**
Expenditures					
Personnel Services	$61,346,688	$65,293,778	$297,955	$65,591,733	6.9%
External Materials and Services	21,603,430	23,991,657	235,845	24,227,502	12.1%
Internal Materials and Services	21,475,750	19,966,338	775,965	20,742,303	-3.4%
Capital Outlay	53,480,220	99,330,853	0	99,330,853	85.7%
Debt Service	37,288,033	52,456,708	0	52,456,708	40.7%
Fund Transfers - Expense	197,836,543	229,745,608	0	229,745,608	16.1%
Contingency	125,943,382	83,181,055	-3,684	83,177,371	-34.0%
Unappropriated Fund Balance	116,690,424	36,124,611	0	36,124,611	-69.0%
Total Requirements	**$635,664,470**	**$610,090,608**	**$1,306,081**	**$611,396,689**	**-3.8%**
Total Bureau FTE	**619.05**	**591.35**	**3.00**	**594.35**	**-4.0%**

Percent Change is the change from FY 2012-13 Adopted Budget to FY 2013-14 Total Requested Budget.

Key Issues

Updates on Prior Year Significant Issues

Significant issues from prior years continue into FY 2013-14, in addition to several new issues. Highlighted below are updates from prior year issues:

- **Long Term 2 Enhanced Surface Water Treatment Rule (LT2)** - The Oregon Health Authority (OHA) approved the City's request for a 10-year treatment variance subject to requirements in March 2012. As a result, the City will not need to build the ultraviolet treatment plant to comply with the LT2 rule. In May 2012, OHA denied requests to delay the schedule for disconnecting the Mt Tabor and Washington Park reservoirs, and the bureau revised its Five-Year CIP in the FY 2012-13 Adopted Budget to reflect the decision. Through the end of FY 2011-12, the bureau spent approximately $65.2 million on non-variance related projects, and the bureau plans to spend an additional $216.2 million over the next five years. LT2 projects include Powell Butte capacity expansion, Kelly Butte and Washington Park storage, and adjustments to Mt. Tabor piping so that unenclosed storage can be disconnected from the distribution system. The bureau submitted a second request in February 2013 to delay the schedule for disconnecting the Mt Tabor and Washington Park Reservoirs.

Financial uncertainties still exist, including: (1) fiscal impact of having to build the UV facility if multiple Cryptosporidium detections occur, and (2) the delay in capital costs of disconnecting Mt. Tabor and Washington Park reservoirs. Notably, if OHA grants a delayed schedule, the costs remain but the rate impact will be delayed.

- **Monthly Billing** – The FY 2011-12 Adopted Budget included a budget note directing the Water Bureau to adjust its billing system and business processes so that the majority of water and wastewater customers are billed on a monthly basis. Due to significant project delays, the bureau does not anticipate launching quarterly reads with monthly billing before July 2013. The bureau expects cost overruns of approximately $99,000.

- **Pending Litigation** - In December 2011, Citizens for Water Accountability, Trust and Reform filed a lawsuit against the City, declaring that the City improperly spent millions of dollars of utility ratepayer monies on projects that are unrelated to the utilities. One of the challenged Water expenditures was renovation of the McCall Building to facilitate its use by the Rose Festival. Without admitting any legal liability, Council passed ordinance #36976 in November 2012 that reimburses the Portland Water Bureau $1,596,037 for renovations made to the McCall Building. The bureau used these funds to lessen its rate increase by 0.1% in FY 2013-14.

- **Fluoridation** – The Auditor's Office recently certified a measure for the May 2013 Special Election that refers the decision to fluoridate the City's water to Portland voters. Prior to the certification of the measure, the bureau spent $153,000 in project costs for consultant services to assist with the land use review application and initial design. The estimated capital cost is approximately $5 million with ongoing operations and maintenance costs of $575,000. The bureau estimates one-time rate increases of 0.3% to 0.4% due to capital costs and another rate increase of 0.3% for ongoing operating costs when the facility is in operation.

In addition to the continuation of these issues from prior years, CBO notes several new issues:

- Update on bureau bond debt
- Budget process for adjusting to decreasing water sales
- Current year and future year water rates.

In addition to these issues, the bureau's capital plan and FY 2013-14 budget changes are discussed below.

Update on Bureau Long-Term Debt (Bonds)

The following section provides an overview of the Water Bureau's current long-term debt, aiming to draw attention to two items: (1) current and future debt obligations, and (2) the impact of debt coverage ratio requirements. The bureau will have $613.6 million in outstanding debt by the end of FY 2012-13, including the estimated amount of a bond sale planned in April of 2013, which requires estimated combined debt service payments of $47.2 million in FY 2013-14.

Current and Future Long-term Debt. The table below outlines the bureau's current bond obligations through the end of FY 2011-12, per the update provided in the Public Finance and Treasury division's "Annual Debt Report Fiscal Year 2011-12". (To note: excluded from this table is the $76,510,000 Series A bond, issued in July 2012.)

TABLE 1: OUTSTANDING PORTLAND WATER BUREAU REVENUE BONDS (THROUGH FY 2011-12)

	Amount Issued	Amount Outstanding
First Lien Bonds		
2004 Series A	29,900,000	12,135,000
2004 Series B	61,900,000	43,360,000
2006 Series B Refunding	44,000,000	38,855,000
2008 Series A	79,680,000	74,240,000
2010 Series A	73,440,000	70,560,000
2011 Series A	82,835,000	81,325,000
Total First Lien Bonds		**320,475,000**
Second Lien Bonds		
2006 Series A (2nd Lien)	68,970,000	60,585,000
Total Second Lien Bonds		60,585,000
TOTAL OUTSTANDING		**381,060,000**

The bureau typically issues bonds every two years in order to have the appropriate amount of resources available to finance current capital, as reflected in the table above. In each of the last four years, though, the bureau has issued bonds to cover costs of LT2 requirements (such as Kelly Butte and Powell Butte 2 reservoirs) in addition to more regular capital costs (such as mains and meters).

The bureau plans to issue bonds in 2013, 2014 and 2016, each for approximately $150 million to address upcoming capital needs (see "Capital Improvement Plan" section, below). As a result, debt service will increase from $47.2 million in FY 2013-14 to an estimated $72.3 million in FY 2017-18. Currently, the annual debt service to water sales ratio is 27%, up slightly from five years ago when the ratio was 21%. The bureau projects this ratio to increase to 35% in the next five years, due to the increased debt requirements of the capital plan and based upon forecasted water sale revenues and planned bond sales.

Neither the amount of expected outstanding debt nor the ratio of debt service to water sales is a concern necessarily. As a result of issuing long-term debt, costs are equitably distributed across generations of rate-payers who use the infrastructure, versus cash financing of projects, which tends to place a greater financial burden on a smaller numbers current of rate-payers.

Debt becomes problematic if the Capital Improvement Plan does not accurately reflect the balance between appropriate asset management and the willingness of Portland rate-payers to accept the costs.

Debt Coverage Ratios. By authorizing the bond covenants for each bond sale, Council requires that the bureau must collect revenues sufficient to exceed annual operating expenses and debt service. The amount of revenue required is referred to as the debt coverage ratio, and if the bureau cannot meet the specified ratios, Council is legally obligated to raise rates.

Debt coverage ratios indicate the amount of gross revenues, less acceptable operating expenses, compared to annual debt service obligations. The ratio provides an indicator of the amount by which net revenues exceed the minimum amount required to cover annual expenses, including debt service. Council, via bond covenants, directs the bureau to meet a legally required minimum of 1.25 ratio on first lien bonds and 1.10 on second lien bonds; however, the bureau targets a debt service ratio of 1.90 on first lien bonds and 1.75 on second lien bonds. Last year the bureau achieved a ratio of 2.39 on first lien bonds, and 2.00 on combined first and second lien bonds with stabilized net revenues.

Rating agencies and bond investors use the ratios to assess the bureau's ability to service debt, and as such, high coverage ratios improve the bureau's credit rating. Moody's currently rates the bureau's first lien bonds as Aaa and Aa1 for second lien bonds. The quality of the bureau's credit rating leads to lower interest rates when issuing bonds, and as a result, reduce the costs of financing capital projects.

After payment of debt service, the bond documents do not restrict the use of remaining net revenues. Generally these net revenues are used for utility license fees (ULFs) and cash finance capital programs. The amount of remaining net revenues due to debt service coverage ratios for FY 2013-14 is expected to be $27.3 million, of which approximately $5.6 million will cover ULFs and remaining $21.7 million will provide cash financing for projects.

CBO recommends that the bureau continue to keep Council apprised of their planned bond sales in relation to the bureau's capital plans and identify the use of net revenues in their Requested Budgets.

Budget process for adjusting to decreasing water sales

Past CBO analyses have noted the impact on water sales due to decreasing consumption. Fluctuations in sales reflect both short term and long term causes. Whereas seasonal trends in weather are the most common short-term factor, efficiencies from plumbing code revisions and consumer conservation efforts have caused a steady decrease in water sales. Since FY 2004-05, forecasted water demand has been less than actual, leading the bureau to incorporate the impact of this trend into revenue projections. Whereas the bureau forecasted 27.5 million CCF (100 cubic feet of water) in the past two fiscal years, actual sales have been closer to 25.5 million CCF. The bureau forecasts that demand will stabilize around 25.5 million CCF within the next five fiscal years.

Variances in projected to actual revenues have been substantial in recent years. In FY 2011-12, the Water Bureau budgeted approximately $122 million in revenue from retail and wholesale sales but only received $115 million, resulting in approximately $7.4 million less revenue than budgeted. Similarly, in FY 2010-11, the bureau received $5.2 million less in service charge revenues than included in the Adopted Budget. The table below outlines the difference the amount between budgeted and actual water sales revenues.

TABLE 3: VARIANCE IN BUDGET TO ACTUAL WATER SALES

	FY 2008-09	**FY 2009-10**	**FY 2010-11**	**FY 2011-12**
Variance in budgeted to actual utility revenues	($1, 374,201)	($1,873,550)	($5,151,113)	($7,475,710)

The bureau uses two strategies to adjust to the gap between budgeted and actual revenues. First, in order for revenues to balance with costs, the bureau will increase rates by an additional 1.5% in FY 2013-14, included as part of the based 6.7% increase. The bureau will again increase rates by 1.5% in FY 2014-15 and 0.8% in FY 2015-16 so that revenues balance with expected costs.

Second, the bureau internally manages its budget through midyear adjustments. Managers and supervisors are directed to reduce spending throughout the year as the bureau recognizes the decreasing demand projections and corresponding revenue shortfall. To a degree, the bureau's internal management of its budget is the appropriate solution. Seasonal variances due to weather and climate make the science of precise budgeting to be difficult. For these instances, the bureau requires the flexibility to adjust their budget as monthly and year-end projections are developed throughout the year.

However, as the bureau adjusts spending outside of the budget process, Council loses its authority to approve or reject budget changes.

Bureaus adjust budgets three times each year during the Budget Monitoring Processes (BMPs), giving Council authority to appropriate funds. As actual revenues fall short of budgeted amounts, CBO recommends that the bureau submit requests to change expected revenues, and accordingly, adjust expenditures. For years in which the seasonal factors complicate year-end projections, the bureau may need to request transfers from the rate stabilization fund or other bureau contingencies. It is likely that most adjustments will be primarily technical rather than programmatic, in which the bureau will make small reductions across a number of line items within a program's budget. If revenues continue to fall significantly less than budget, the bureau is more likely to make these changes during the annual budget process. Regardless of whether the reductions are technical or programmatic, CBO recommends that Council authorize these changes in the BMPs.

The CBO will work with the Water Bureau on how best to adjust the bureau's budget during BMPs in such a way that provides the appropriate amount of financial flexibility for reacting to seasonal variances while also authorizing Council to approve budget changes.

Two benefits result from the bureau using BMPs to recognize changes in water sales: first, the bureau's budget is ultimately more transparent, allowing the public to understand how the bureau intends to spend rate-payer dollars. Second, through greater control of the bureau's budget, Council retains its authority to approve programmatic and project changes.

Water Rates

The bureau's FY 2013-14 Requested Budget, at the 90% operating base budget level, requires a 6.7% base rate increase, increasing the typical residential customer (5 CCF/month) by about $2.07 to a total of $28.72 in FY 2013-14. The proposed rate increase is lower than the amount originally projected during the FY 2012-13 budget development; at that time, the bureau projected a rate increase of 14.8% in FY 2013-14.

For context, outlined below are prior-year actual rate increases and future year rate increases, as projected at the time of the Requested Budget submission. The bottom line of the table is the typical monthly bill based upon actual volumetric usage and a projected bill based upon an average of usage of 5 CCF/month.

TABLE 4: RATE CHANGES, FY 2008-2009 THROUGH FY 2017-18

	Actual					Projected				
	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
Rate Increase	**8.6%**	**17.9%**	**12.0%**	**12.9%**	**7.6%**	**7.8%**	**14.4%**	**14.4%**	**9.0%**	**8.0%**
Average Monthly Bill	$18.68	$22.02	$24.66	$27.85	$26.65	$28.72	$32.86	$37.60	$40.98	$44.27

Projections as of February 2013

Rate increases are expected to be significant, even if lowered due to conservative bond interest estimates. Despite ongoing reductions beginning in the bureau's FY 2013-14 operating budget, water rates are planned to increase by an average of 10.5% per year over the next five years.

The table below provides a detailed overview of the factors that drive future rate increases, including adjustments made to the FY 2013-14 proposed rates.

TABLE 5: FIVE-YEAR WATER RETAIL RATES FORECAST

	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
Inflation/Lower Interest Earnings	3.7%	2.9%	3.0%	2.0%	2.4%
Capital Program (6% bond rate assumed)	11.1%	19.5%	12.1%	2.7%	3.6%
Rate Stabilization Account	-4.8%	-8.2%	-1.6%	1.2%	0.5%
Deferred Rates	4.3%				
Non-Rep COLA	0.5%				
Retail Demand from FY 2011-12		0.6%			
Wholesale Revenue				1.8%	
FY 2013 Adopted Plan	**14.8%**	**14.8%**	**13.5%**	**7.7%**	**6.5%**
2012 Bonds Sale Rate savings	-1.2%				
2012 Year End Updates	-0.2%	-0.6%			
2013 Bonds Rate (from 6% to 4%)	-1.6%				
Non-Rate Revenues	-0.1%				
Wholesale Updates	0.5%				0.2%
GF Reimbursement - $1.6 Million	-0.1%				
Pension Obligation Bonds (POBS)	-0.1%				
Inflation Update (October update from OMF)	0.2%	0.3%	0.3%	0.1%	0.3%
Lower Retail Demand	1.5%	1.5%	0.8%		
General Fund Overhead	0.3%				
5-Year CIP Update	-1.1%	-0.5%			
Mayor's 10% Operating Reductions	-5.7%				
Bond Sale Schedule Adjustment	2.6%	-1.2%	-0.9%	3.7%	0.2%
Levelizing rates (utilizing rate stabilization account)	-3.1%	0.1%	0.7%	-2.5%	0.8%
Proposed Increase at 90% CAL (FY 2013-14 only)	**6.7%**	**14.4%**	**14.4%**	**9.0%**	**8.0%**
"Add Back" Decision Packages					
Decorative Fountains	0.4%				
Security Specialist	0.1%				
Interagency services	0.6%				
Proposed Rate Increase with "Add Back" Decision	**7.8%**	**14.4%**	**14.4%**	**9.0%**	**8.0%**

Several factors account for the difference in the originally planned and proposed rate increase.

- **Operating reductions.** The Mayor's direction to develop an operating budget based upon 90% of the current appropriation level reduced the rate increase by 2.6%; prior to the Mayor's direction, the bureau identified operating reductions that lessen the rate increase by 3.1% for a total of 5.7%.
- **Bond rate assumptions.** Estimated bond rates were also conservative, as the bureau originally assumed a bond rate of 6.0%. The City's Debt Manager now plans that the bureau will receive a rate of 4.0% for the bond sale in spring of 2013, thereby reducing the projected water rate increase by 1.6%. Savings from the 2012 bond sale also reduced the FY 2013-14 water rate increase by 1.2%. Bureau plans to sell bonds every two years at the rate recommended by the

City's Debt Manager of 6%, but as in prior years, changes to bond financing costs could lessen the amount that the bureau needs to increase water rates.

- **Capital programs.** For future years, capital programs are the primary driver of rate increases in FY 2013-14 through FY 2015-16, accounting for 10% of the projected increase. Transfers from the bureau's Rate Stabilization Account mitigate these increases, lessoning the rate increases by 1.6% to 8.2% over the next three years.
- **Inflation**. Inflation accounts for 3.9%% of the projected increase in FY 2013-14, based upon the current escalation factors provided by the City Economist. To provide the same level of service, there are other escalation factors in addition to materials and services increases (already included within the projected rates), such as increases in personnel costs (PERS and health costs), lower interest earnings and changes to General Fund IAs and transfers.
- **Wholesale contracts.** The bureau does not project significant changes to the projected wholesale contract revenues, except for in FY 2016-17, when the bureau has planned for an additional increase of 1.8% impact to retail rates when the City of Tigard terminates its contract on June 30, 2016 as they have indicated.

CBO notes that that the bureau perceives Council's acceptance of the bureau's financial forecasts and the forthcoming rate ordinance as recognizing that future rate increases are required in order to meet the future requirements. Moreover, documented projections also signal to bond rating agencies that Portland City Council is prepared to raise rates in order to fund debt service of necessary capital projects.

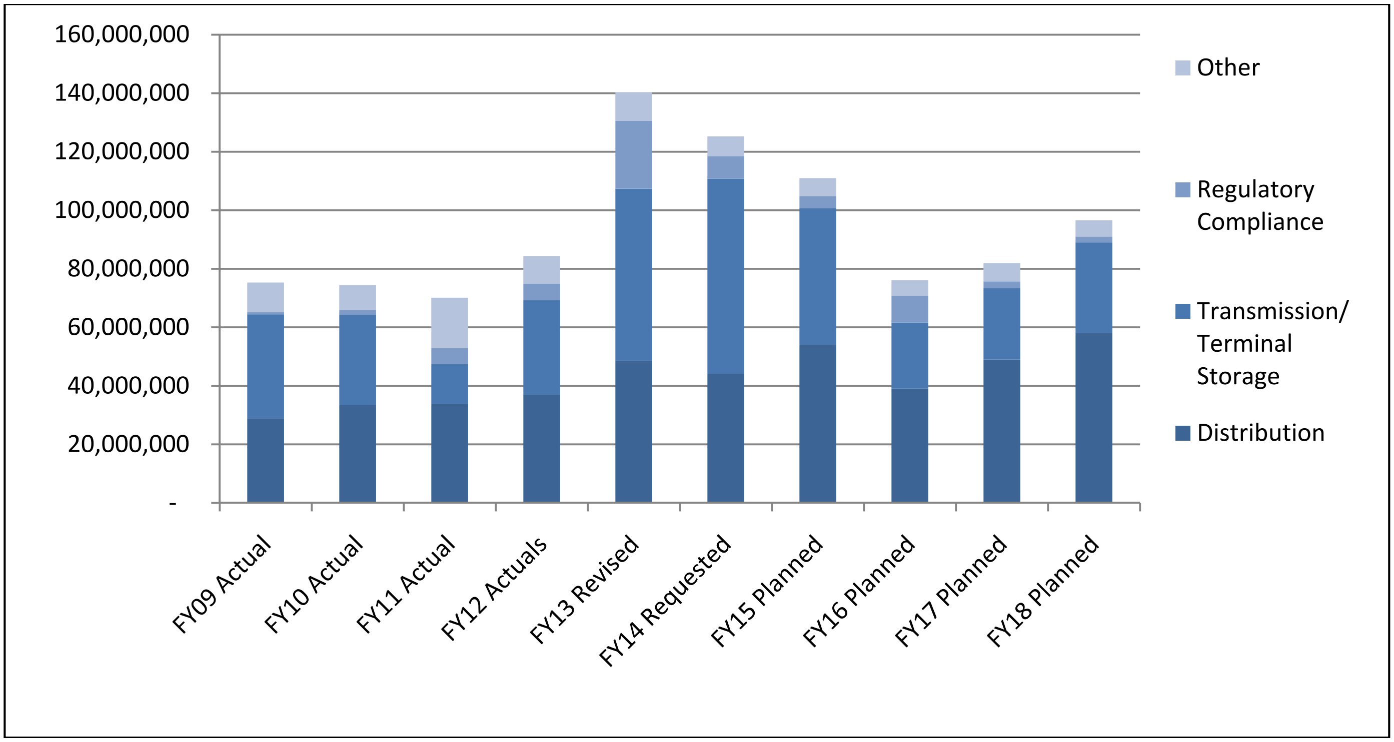
CBO recommends that current rate and budget decisions (both capital and operating) are considered in the context of future rate requirements, as the most significant rate drivers span multiple years (such as the financing capital projects and the resources available in the Rate Stabilization Account). While Council is given the flexibility to approve rates on annual basis, decisions on current rates impact how much rates will need to be changed in future years in order to finance the planned capital projects.

Capital Improvement Plan

The bureau's Capital Improvement Plan (CIP) currently includes $491 million in projects over the next five years, including $125 million in FY 2013-14. Projects in the CIP are primarily funded by bond proceeds, but the bureau plans to fund 28% to 40% of the CIP with cash balances and water sales and charges.

For broad context of how capital spending has changed, the chart below shows prior year actual and estimated future year expenditures.

CHART 1: CAPITAL EXPENDITURES - FY 2008-09 ACTUAL THROUGH FY 2017-18 PROJECTED



The chart illustrates several aspects of the bureau's capital spending.

- Current year costs are relatively high due to LT2 –related projects, which include Kelly Butte Reservoir, Powell Butte Reservoir 2, Washington Park Reservoir and Mt Tabor-Division projects. Total costs of these projects are $280 million. Transmission and storage projects, like reservoirs, are typically the bureau's largest projects, and as such, significantly impact capital spending.
- Distribution program costs historically drive capital project costs. Distribution projects include the building of mains, pump stations and system piping. The Distribution program's five-year capital costs are expected to be $244 million including the $56 million Willamette River Pipe Crossing project and $35 million for the Interstate Facility Rehabilitation.
- The Bull Run Dam 2 Tower project, totaling approximately $40 million, is the largest project in the Regulatory Compliance; however, annual spending is also impacted by projects related to the Habitat Conservation Plan and other smaller projects that cost less than $500,000.
- Other capital projects include planning studies, smaller projects at Bull Run and the Columbia South Shore Well Fields and the recent Headworks Flow Meter project. The bureau's portion of the Emergency Coordination Center, totaling $9.8 million with $1.8 million in FY 2013-14, also contributes to recent costs.

The FY 2013-14 CIP includes three major changes in costs: Bull Run Dam 2 Tower project costs decreased by $3.8 million to a total project cost of $36.3 million; the Washington Park reservoir disconnection project increased $6 million due to the identification of design complexities and seismic risks; and finally, the bureau split the Mt. Tabor reservoir disconnection projection into two projects.

Beginning in FY 2014-15, the bureau will start the initial design phases of the Willamette River Pipe Crossing – a project with an estimated total cost of $57 million. As of the beginning of FY 2012-13, the bureau has spent $182,000 in the planning, design and permitting for this project. The bureau has budgeted $460,000 for this project in FY 2013-14, with major expenditures beginning in FY 2016-17 when the bureau has capacity for new construction projects.

In addition, to lessen the rate impact of the LT2-related projects, the bureau deferred projects that were considered a priority in the 2007 Distribution System Master Plan. This plan included $100 million in recommended projects, including upgrades to pump stations and other facilities. The bureau plans to incorporate these projects, in addition to conduit rehabilitation work, into future capital plans over the next five to ten years.

FY 2013-14 Budget Development

The bureau prepared a budget based upon 90% of the current appropriation level for its operating expenses, following from the Mayor's budget direction. The bureau reduced its operating budget by $7.6 million and requested $1.3 million in "add back" packages. The water rate increase of the base budget is 6.7%; if all three decision packages are approved, water rates will increase by 7.8% total. The table below outlines how the bureau and CBO decided upon the cut amount.

TABLE 6: REDUCTION AMOUNT OF FY 2013-14 BASE BUDGET

	FY 2012-13 Base	Inflation Factors	Inflationary Increases
Personnel Services	$47,016,959	7%	$3,291,187
External Materials and Services	$13,478,293	3.5%	$471,740
Less Utility License Fees	($5,635,000)		
Utilities	$3,775,241	6.1%	$230,289
Internal Materials and Services	$16,404,378	3%	$492,131
	$80,674,871		**$4,485,348**
Inflationary Increases	$4,485,348		
Less Non-Rate Revenues	($7,735,284)		
Less Interagency Revenues	($1,663,521)		
Adjusted for 10% Cal	$75,761,414		
10% reductions	**$7,576,141**		

This reduction eliminates 25.5 positions, of which 3 positions are expected to be filled at the end of FY 2012-13. To achieve these reductions, the bureau made 19 programmatic changes, primarily in personnel services, professional and miscellaneous services, operating supplies and interagency agreements. The list below details the line item reductions.

TABLE 7: LINE ITEM REDUCTIONS TO FY 2013-14 BASE BUDGET

Amount Reduced from Budget Category	
Personnel Services	
$2,370,000	Staffing (full time and related benefits)
$346,000	Staffing (part time, overtime, and premiums)
External Materials and Services	
$1,037,000	Professional & Miscellaneous Services
$1,111,000	Operating Supplies
$273,000	Miscellaneous
$279,000	Repair & Maintenance Services
$921,000	Utilities
$144,000	Training/Travel
$1,180,000	Interagencies

The bureau organized these reductions into three categories, based upon the impact to the bureau. As outlined in the bureau's Budget Advisory Committee report, each of the reductions will either (1) reduce the ability to respond to contingencies, (2) improve or create efficiencies, or (3) reduce or eliminate a service.

Contingencies. As part of the FY 2013-14 Requested Budget, the bureau decreased the budget for contingencies by $970,000. Contingencies include any number of catastrophic and weather related events, unplanned or unexpected repairs to the transmission and distribution system, and increased interagency costs. If a contingency occurs in an area in which the budget was reduced, the bureau will draw upon other budgeted contingency funds. Below is a list of significant changes to the bureau's contingency budget:

- Groundwater: $500,000 was reduced from the original $1.2 million budget for electricity to operate the wellfield;
- Regulatory Compliance: $169,800 was reduced from the original $1.5 million budget for LT2 treatment variance monitoring;
- Conduits/Transmission Mains: $72,203 was reduced from the original $85,000 budget for materials and supplies for repairs at Sandy River Station in the Watershed;
- Pump Stations/Tanks: $100,000 was reduced from the original $1,835,000 budget for electricity to operate the pump stations; $80,000 was reduced from the original $300,000 budget for parts & supplies for repairs of pumps and tanks.

Efficiencies. The bureau also identified $3 million through efficiencies in order to reach the $7.6 million reduction. These efficiency reductions include costs that no longer require any budget and reflect reductions made by managers and supervisors over the past two years as water sales projections were less than budgeted. That is, these items required no budget in FY 2013-14.

The bureau's responsibility is to adjust their budget in good faith, as discussed earlier in the "Decreasing Water Sales" section. To the degree that savings exist, the bureau should adjust budgeted amounts to accurately reflect intended spending. To this end, funds available from additional efficiencies should be applied to cash financing of the CIP and limit rate increases in future fiscal years.

Service Impacts. The bureau reduced its budget by $3.6 million in areas that will impact programs, such as ground maintenance, reservoir security, liaison support to commissioner's offices, general administrative support, and contract flagging services. The reductions also impact budgeted amounts for asset condition assessment, climate change research, Endangered Species Act assessment, and several other items.

CBO has reviewed all 19 programmatic reductions and supports the bureau's proposed cuts. Several reductions, however, warrant consideration: (1) 324,000 reductions in employee investment, and (2) elimination of the Water Quality Manager position.

The bureau reduced their employment investment by $324,000, eliminating one filled program specialist position and training support in the Maintenance and Construction Support Services group. Due to the type of skilled labor in this group, reducing training for water distribution and safety could impact the effectiveness of this group to maintain the water distribution system. The bureau believes that they can provide any necessary training "in house", rather than using outside vendors for trainings.

The bureau also eliminated a vacant Water Quality Manager position. This position was created after a voluntary program assessment by the American Water Works Association and the Water Environment Federation. This assessment concluded the following:

> "Supervision of the auditing functions (water quality lab and regulatory compliance) by operations is not consistent with the auditing component of their function. Water quality tasks are not managed at a high enough level in the organization to ensure appropriate attention and visibility."

After the assessment, the bureau hired a Water Quality Manager with expertise to create cohesion and leadership amongst the water quality functions within the bureau and ensure commonality in approaches to routine tasks such as correct analytical methods. The position was filled for several years, but recently vacated. The current Operations Director is able to provide the necessary leadership.

The current water quality group likely functions well due to the qualifications of the current Water Operations director; however, if the position is vacated, the concerns raised during the 2006 assessment may recur. CBO recommends eliminating this position; however, CBO also recommends restoring this position, or implementing another solution, in a future budget year if the need arises.

Decision Package Analysis & Recommendations

The bureau submitted only three decision packages for the FY 2013-14 Requested Budget. As described earlier, the bureau reduced its Operating Budget by $7.6 million in order to achieve the 90% current appropriation level, but requests only $1.3 million add back packages. Two of the add packages restore programmatic needs: first, the bureau requests $470,000 to maintain the City's decorative fountains program but with reduced services; second, the bureau requests $70,000 to restore a security ranger at Mt. Tabor and Washington Park reservoirs. The bureau's final add package would increase interagency agreements with OMF, pending Council's decision on OMF's budget. The water rate increase of the base budget is 6.7%; if all three decision packages are approved, water rates will increase by 7.8% total.

In addition to the packages discussed above, the Bureau of Environmental Services has also proposed to no longer pay the bureau for any costs associated with maintaining the meters. Both BES and the Portland Water Bureau rely on these meters to provide accurate readings of water and sewer usage. Prior to the Mayor's budget direction, BES budgeted approximately $2.4 million in reimbursement costs to the Water Bureau. If Council approves BES decision package to transfer meter maintenance costs, the Water Bureau will either request to increase rates by an additional 1.7% or reduce maintenance service levels in addition to lower rate increase, resulting in less accurate meters.

Decorative Fountains, WA_01, $466,178, 2.00 FTE

The bureau requests to add back $466,178 of the $626,371 to operate and maintain the City's 19 decorative fountains. The bureau will reduce the miscellaneous services budget by $160,000, limiting the repair of the fountain failures when occurring outside of regular work hours.

Last year the bureau made 61 repairs to the decorative fountains, of which 7 were significant failures that required work outside of regular hours. These types of repairs include disinfection/pH control and analyzer equipment overloads or failures, control system failures, flood alarms and power failures.

It should be noted that the Bureau of Environmental Services has proposed increasing its drinking fountain discharge rate for the Water Bureau by $450,000 for the decorative fountain. Currently, BES charges the Water Bureau a nominal amount of $0.001/CCF. If Council approves BES' increase, then the Water Bureau will either need to reduce its requested budget by a corresponding amount or increase water rates by an additional 0.3%.

If funding for the decorative fountains is not approved as part of the bureau's budget, then the bureau proposes that the responsibility of maintaining the fountains be transferred back to the Portland Parks Bureau. The Parks Bureau has not budgeted for these additional costs.

Council has three other options for how to address the fountains: (1) Council could direct the bureau to continue to service the fountains and propose an alternative reduction of $466,178 in lieu of the fountains; (2) all bureaus continue to service the fountains according to the current arrangement; or, (3) Council could stop funding maintenance and operations of the fountains for FY 2013-14, temporarily reducing costs to Parks, Environmental Services and the Water bureaus.

The CBO recommends that, during this period of tight constraints on discretionary General Fund resources, the bureau continue to service the fountains and increase rates by 0.4% in addition to the base rate of 6.7%. Further, CBO recommends that a process be put in place to address these issues and either reaffirm the existing approach or develop a new approach to prioritizing and delivering these services.

CBO Recommendation: $466,178, 2.00 FTE

Security, WA_02, $70,356, 1.00 FTE

The bureau requests to restore funding for a vacant Water Security Ranger position. The position eliminated in the bureau's base budget provides periodic patrols of Washington Park during the night shift. If funding is not restored, the bureau would rely upon the security at Mt. Tabor to respond to alarms and incidents. Over the past three years there have been 67 criminal incidents at Washington Park reservoirs and 207 incidents at Mt Tabor Parks. Of these incidents, 10 threatened water quality. Restoring the security position would increase rates by 0.1% of the base rate of 6.7%.

Due to potential public safety concerns, CBO recommends funding this request and restoring the funding for the Ranger position.

CBO Recommendation: $70,356, 1.00 FTE

OMF Interagency Add Backs, WA_03, $769,547

As per budget direction, the Office of Management and Finance (OMF) internal service funds were asked to submit 90% of their current service level (CSL) budgets as their base and add packages to restore funding up to 100% of CSL. Bureaus were directed to match the OMF add-back packages with a single decision package. The table below outlines the total requested add-backs by service provider.

OMF Service	Requested	CBO Recommended
CityFleet	51,315	0
EBS Services	94,911	0
Facilities Services	121,468	0
OMF-Water IA	10,777	0
Risk Management	37,574	21,025
Technology Services	453,502	0
Total impact	**769,547**	**21,025**

In response to add-backs recommended in the OMF budget analysis, the CBO recommends a draw on contingency of $21,025 to fund these packages. A full discussion of all of the OMF packages may be found in the OMF budget analysis.

If all OMF add packages are approved, water rates would increase by 0.6% of the base rate of 6.7%. As recommended by CBO, the rate increase due to the OMF IAs would be minimal.

CBO Recommendation: $21,025

City of Portland

Decision Package Recommendations

(Includes Contingency and Ending Balance)

	Bureau Priority	Bureau Requested					CBO Analyst Recommendations				
		FTE	Gen Fund Ongoing	Gen Fund 1-Time	Other Revenues	Total Expenses	FTE	Gen Fund Ongoing	Gen Fund 1-Time	Other Revenues	Total Expenses
Portland Water Bureau											
Bureau Adds											
WA_01 - Decorative Fountains	01	2.00	0	0	466,178	466,178	2.00	0	0	466,178	466,178
WA_02 - Security	01	1.00	0	0	70,356	70,356	1.00	0	0	70,356	70,356
WA_04 - OMF IA Add Backs - Hydropower	01	0.00	0	0	0	0	0.00	0	0	0	0
WA_03 - OMF Interagency Add Backs - Water Division	03	0.00	0	0	769,547	769,547	0.00	0	0	769,547	769,547
Total Bureau Adds		*3.00*	*0*	*0*	*1,306,081*	*1,306,081*	*3.00*	*0*	*0*	*1,306,081*	*1,306,081*
Total Portland Water Bureau		**3.00**	**0**	**0**	**1,306,081**	**1,306,081**	**3.00**	**0**	**0**	**1,306,081**	**1,306,081**